

Little evidence of increase in USD hedge ratios

The latest data from the Danish central bank suggest the Danish buy-side were reducing, not increasing their dollar hedge ratios at the start of the year



Data suggest the Danish buy-side used dollar weakness in January and February to reduce their FX hedge ratios on their US exposure

Danish buy-side cuts dollar hedge ratio in February

It seems a lifetime ago, but before the conflict in Iran, dollar weakness at the start of the year was again asking questions about whether European investors were divesting from US assets or at least raising the FX hedge ratios on their US investments. This was the period when Washington was threatening to take Greenland by force after successfully deposing Nicolas Maduro.

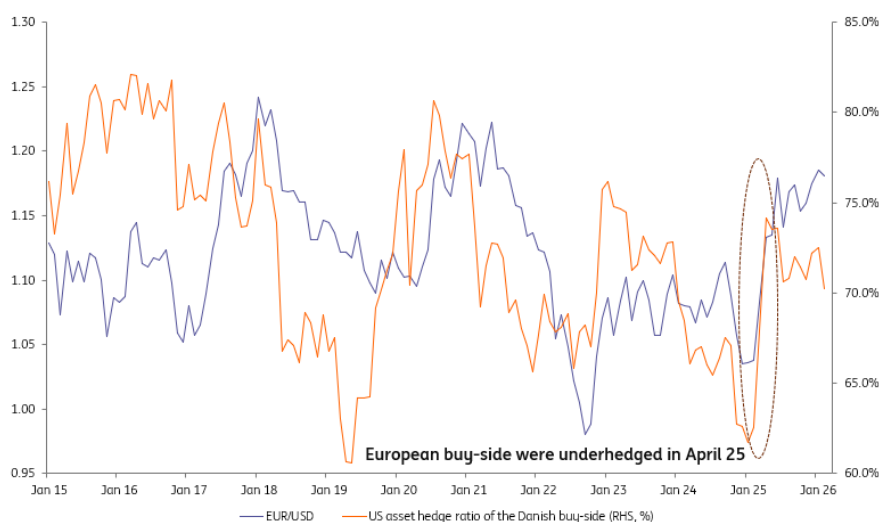
Evidence to support the above is limited and, when it comes to hedge ratios, contrary. With regard to the underlying purchase of US assets by foreigners, the most recent US TIC data we have is for January. Private sector demand for US Treasuries and Agencies has softened since last summer and has been a small net negative over the last couple of months. Yet this is a very volatile series. And foreign private sector demand for US equities has remained quite robust despite all the talk of more attractive opportunities overseas. The foreign private sector is a key swing financier of US deficits, with their flows swamping those of the official sector over recent years.

When it comes to hedging practices, the limited window provided by Danish central bank data

suggest the Danish buy-side (insurers and pension funds) used dollar weakness in January and February to reduce not increase their FX hedge ratios on their US exposure. The latest hedge ratio data for February, at 70.3%, is actually the lowest since before 'Liberation Day' in April last year.

While this data is partial, it was used as an insight last year into the hedging practises of European investors. Far from suggesting that Greenland threats from the White House have prompted an increase in dollar hedging, the data supports the view that this community used dollar weakness at the start of the year to buy back some of their short dollar hedges. This again points to a commercially rather than ideologically-driven mindset for the buy-side community.

Danish insurance and pension fund USD hedge ratios versus EUR/USD



Source: Danmarks Nationalbank, ING

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